

Message Text

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C O R R E C T E D C O P Y (TEXT PARA 6. CORRECTED)

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SUBJ: IMF NEGOTIATIONS

REF: CAIRO 13796

SUMMARY: PRESS COVERAGE AND EARLY PUBLIC GOE COMMENT ON
GOE/IMF THREE-YEAR EXTENDED FUND FACILITY (EFF) FOR
600 MILLION SDR HAS BEEN FAVORABLE, IF NOT EUPHORIC.
DISCUSSION DURING CHARGE CALL ON MINECON HAMID EL-SAYEH,
HOWEVER, HIGHLIGHTED THERE AS YET UNRESOLVED DETAILS WHICH
MAY RAISE FUTURE PROBLEMS, ALTHOUGH IT IS UNCLEAR WHETHER
THEY WILL PREVENT RATIFICATION OF AGREEMENT. CONSENSUS
OF GOE OPINION, HOWEVER, IS ACCORD WILL FINIALIZED IN
JUNE, POSSIBLY PRIOR CG MEETING. END SUMMARY.
1. AL AHRAH MAY 31 CARRIED FRONT PAGE ARTICLE ANNOUNCING
CONCLUSION OF THREE-YEAR \$720 MILLION AGREEMENT WITH IMF.
PACKAGE DESIGNED TO ASSIST IN FINANCING OF GOE BALANCE OF
PAYMENTS DEFICIT DURING PERIOD AND SUPPORT CONTINUED
ECONOMIC REFORMS. AHRAH NOTED EGYPTIAN ACCORD WILL BE
FIFTH SUCH MULTI-YEAR AGREEMENT TO BE PROPOSED TO IMF
BOARD OF GOVERNORS. PRESS ACCOUNT EMPHASIZED AGREEMENT IS
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PROOF OF IMF APPROVAL OF PAST GOE FINANCIAL AND ECONOMIC
REFORMS AND ILLUSTRATED BASIC SOUNDNESS OF GOE ECONOMIC
POLICIES. ACCORD REPORTEDLY INCLUDES PROVISIONS TO
CONTINUE SUBSIDIZATION OF KEY STAPLE COMMODITIES,
IMPLEMENTATION OF NEW GOE WAGE SCALE, AND SERIES OF
PRODUCTION AND INVESTMENT TAX INCENTIVES THAT WOULD
DEMAND FURTHER GOVERNMENT EFFORTS ON TAX REFORM. ON

BALANCE OF PAYMENTS/NATIONAL ACCOUNTS, GOE AGREED TO LIMIT BUDGET DEFICITS AND TAKE FURTHER STEPS AGAINST INFLATION. NO DETAILS ON CREDIT CEILINGS OR DEFICIT SIZE WERE GIVEN IN PRESS ACCOUNT BUT KNOWLEDGABLE GOE SOURCES NOTED PREVIOUSLY THAT GOE HAD PROPOSED ANNUAL CONSULTATIONS ON CEILING LEVELS CONTINGENT UPON GENERAL ECONOMIC PERFORMANCE.

2. SUBSEQUENT CONVERSATION WITH SENIRO MINECON OFFICIAL CONFIRMED THAT IMF-GOE NEGOTIATIONS COMPLETED MAY 30. GOE ECONOMIC GROUP PLANS TO SUBMIT FINAL AGREEMENT TO CABINET LATE THIS WEEK OR EARLY NEXT WEEK. IMF BOARD IS SCHEDULED TO REVIEW DRAFT AGREEMENT IN EARLY JUNE.

OFFICIAL INDICATED IT WAS POSSIBLE THAT AGREEMENT MAY BE RATIFIED BY BOTH GOE CABINET AND IMF BOARD OF GOVERNORS PRIOR TO IBRD CONSULTATIVE GROUP MEETING IN MID-JUNE.

3. DESPITE THESE POSITIVE STATEMENTS, MINISTER OF ECONOMY HAMID EL SAYEH TOLD CHARGE AND USAID DIRECTOR ON JUNE 1 THERE ARE STILL THREE ISSUES ON WHICH GOE HOIPE IMF MIGHT BE WILLING TO ACCOMMODATE BEFORE LETTER OF INTENT IS ACTUALLY SIGNED

A. AMOUNT OF FUND FACILITIES WHICH WILL BE PROVIDED. PRESENT IMF INTENT IS TO PROVIDE 600 MILLION SDR OVER THREE YEAR PERIOD (APPROXIMATELY \$720 MILLION AS REPORTED IN PRESS). GOE WOULD LIKE SOME INCREASE IN THIS AMOUNT, AND UNDERSTANDS THAT IMF IS WILLING TO CONSIDER SOME INCREASE. THIS IS PRESUMABLY UNDER DISCUSSION BETWEEN SHAALAN AND IMF MANAGEMENT AT THE PRESENT TIME.

B. EL SAYEH NOTED THAT IMF HAD ALREADY AGREED TO EXCLUDE LIMITED OFFICIAL USE

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NON-MEMBER PAYMENTS AGREEMENT COUNTRIES FROM APPLICATION OF NEW UNITARY EXCHANGE RATE. HOWEVER ON REFLECTION GOE REALIZED THAT IF PAYMENTS AGREEMENTS MEMBER COUNTRIES ARE UNINCLUDED IN UNITARY RATE, THE THREE BLOC NON-MEMBER COUNTRIES COULD MAKE CLAIMS FOR MOST FAVORED NATION TREATMENT. THUS, GOE WOULD LIKE TO EXCLUDE PAYMENTS AGREEMENT MEMBER COUNTRIES FROM APPLICATION OF UNITARY RATE AS WELL. EL SAYEH HAS SUGGESTED TO SHAALAN THAT LANGUAGE OF LETTER OF INTENT SHOULD PROVIDE THAT UNITARY RATE WOULD APPLY TO TRANSACTIONS IN CONVERTIBLE CURRENCIES, THUS AUTOMATICALLY EXCLUDING ALL PAYMENTS AGREEMENTS TRANSACTIONS. EL SAYEH SAYS SHAALAN IS ALSO RAISING THIS POINT WITH IMF MANAGEMENT.

C. IN A SOMEWHAT UNCLEAR POINT, EL SAYEH SAYS THAT IMF DRAFT OF LETTER OF INTENT INCLUDES LANGUAGE THAT THERE WOULD BE "UNDERSTANDINGS" BETWEEN IMF AND GOE ON VARIOUS POLICY CHANGES AND THAT GOE PREFERENCES TO USE THE WORD "CONSULTATIONS" RATHER THAN UNDERSTANDINGS. WHILE IMPLICATIONS OF THIS WORK USAGE ARE NOT CLEAR TO US, EL SAYEH SEEMED TO FEEL THAT IT COULD BE USED BY IMF TO FORCE ACTION ON POLICY CHANGES BEYOND OR IN A FASTER TIME FRAME THAN THOSE POLICY CHANGES ALREADY ACCEPTED WITHIN THE FRAMEWORK OF THE LETTER OF INTENT. WHILE EL SAYEH WOULD LIKE VERY

MUCH TO HAVE A LANGUAGE CHANGE ON THIS MATTER, HE ALSO ADMITTED THIS WAS A SUBJECT ON WHICH IMF IS PROBABLY MOST FLEXIBLE.

4. EL SAYEH ASKED IF USG COULD SUPPORT GOE WITH IMF ON THESE MATTERS. CHARGE INDICATED WE WOULD REPORT THESE POINTS TO WASHISNG FOR CONSIDERATION. ASKED WHAT WOULD HAPPEN IF IMF WOULD NOT GIVE ON ANY OF THESE THREE POINTS, EL SAYEH STATED THAT THE GOE WOULD STILL GO AHEAD AND SIGN THE LETTER OF INTENT

5. IT WOULD BE HELPFUL IF WASHINGTON COULD CHECK WITH IMF REGARDING THEIR UNDERSTANDING OF WHAT MIGHT HAPPEN ON THESE THREE POINTS. IT WOULD OBVIOUSLY BE HELPFUL IF IMF COULD GIVE SOMEWHAT ON THE FIRST TWO POINTS, ALTHOUGH WE ASSUME THERE PROBABLY IS NO ROOM FOR MANEUVER ON THE LAST ONE

6. COMMENT HOPEFULLY THESE LAST MINUTE POINTS CAN BE CLEARED UP RAPIDLY. IN ANY EVENT, IT WOULD APPEAR THAT LIMITED OFFICIAL USE

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IMF EXTENDED FUND FACILITY IS PROBABLY FIRMLY IN HAND. AGREEMENT WILL OBVIOUSLY DO MUCH FOR EL SAYEH'S PRESTIGE IN GOVERNMENT CIRCLES. IN THAT CONNECTION, EL SAYEH NOTED THAT PRIME MINISTER WILL PROBABLY SIGN LETTER OF INTENT IN ORDER TO GAIN SOME POLITICAL BENEFIT FROM IT HIMSELF. EFF WILL ALSO BE STRONG CARD IN EL SAYEH'S HANDS AT FORTHCOMING IBRD-CG MEETING, AS WELL AS ANY VISITS WHICH HE MAY MAKE TO GULF STATES PRIOR TO CG MEETING (SEPTEL). MATTHEWS

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